

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is intended to be an easily readable analysis of the City of Burien's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page 1-1 and with the financial statements and notes to the financial statements that follow this analysis.

FINANCIAL HIGHLIGHTS

In each of the last four years, since the City began reporting in accordance with the GASB 34 model, total net assets have increased by an average of more than \$5 million per year. The assets of the City of Burien exceeded its liabilities at the close of the most recent fiscal year by \$80.6 million. Of this amount, \$61.9 is invested in capital assets net of related long term debt and the remaining \$18.7 million is available for debt service, capital projects and to meet the government's ongoing activities and obligations.

The City of Burien's total net assets increased by \$7.5 million in 2006. Government activities provided 92.4% of this increase with the remainder being provided by the business-type activities.

As of year end December 31, 2006 the City of Burien's governmental funds reported combining ending fund balance of \$17 million, an increase of \$5.9 million in comparison with the prior year. This increase is primarily due to \$9.8 million bond issue and the purchase of a potential site for a new senior center.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,246,260, or 14.7% of total general fund expenditures. This is up from the \$880,000 in unreserved General Fund, fund balance for 2005. This ending fund balance exceeds the financial policy required amount of 5% of ongoing revenues and this excess is expected to be transferred to the capital programs in the near future.

The City of Burien's total long term debt increased by \$9.7 million, which is attributed to a \$9.8 million dollar bond issue in late 2006.

REPORT LAYOUT

The Government-wide financial statements are designed to provide readers with a broad overview of the City of Burien's finances in a manner similar to a private sector business. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, transportation, economic development, culture and recreation, community development and general government administration. Business-type activities consist of a storm water management system. The government-wide statements include the Statement of Net Assets and the Statement of Activities. The report also provides for significant major funds financial statements which provide more detail than the government-wide statements. Where combined information has been presented, later statements will provide combining information. Budgetary information is provided for operating governmental funds. The

notes to the financial statements are an integral part of this report. Finally, there is supplemental information provided related to the financial activity of the City.

The City's Comprehensive Annual Financial Report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statements 34, 36, 37, 38, 40 and 44.

STATEMENT OF NET ASSETS

The focus of the Statement of Net Assets is to present all of the City of Burien's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Burien is improving or deteriorating.

STATEMENT OF ACTIVITIES

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants and direct charges, it is paid from general taxes and other resources. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. The City's major funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds." For each major fund, a Budgetary Comparison Statement is presented. Readers who wish to obtain information on non-major funds can find it in the Combining Schedules of Non-major Funds and or the Supplemental Information-Budgetary Comparison Schedules sections of this report. Finally, completing the document is a series of other financial and statistical schedules, and the reports by the independent auditors, as required by statute. The MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior year.

CITY AS A WHOLE

GOVERNMENT-WIDE FINANCIAL STATEMENTS

An analysis of net assets over time may serve as a useful indicator of a government's financial position. In the case of the City of Burien, assets exceeded liabilities by \$80.6 million at the close of the fiscal year.

During fiscal year 2006 the major change to the balance of net assets is the increase in capital assets, net of related debt, which is comprised of a large property purchase of a possible site for a new senior center and a large increase in Construction Work in Progress (CWIP) predominantly on the 1st Ave South, Transportation Capital Improvement project. A condensed version of the Statement of Net Assets at December 31, 2006 is presented on the following page.

City of Burien's Net Assets at Year-End

| | Governmental Activities | | Business - Type Activities | | Total | |
|---------------------------------|----------------------------|---------------|-------------------------------|--------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | \$ 20,808,609 | \$ 14,865,060 | \$ 981,777 | \$ 831,066 | \$ 21,790,386 | \$ 15,696,126 |
| Capital assets, | | | | | | |
| net of accumulated depreciation | 73,595,880 | 62,064,409 | 3,819,583 | 3,421,756 | 77,415,463 | 65,486,165 |
| Total assets | 94,404,489 | 76,929,469 | 4,801,360 | 4,252,822 | 99,205,849 | 81,182,291 |
| Long-term liabilities | 15,691,414 | 6,011,993 | - | - | 15,691,414 | 6,011,993 |
| Other liabilities | 2,884,600 | 2,044,314 | 52,867 | 77,904 | 2,937,467 | 2,122,218 |
| Total liabilities | \$ 18,576,014 | \$ 8,056,307 | \$ 52,867 | \$ 77,904 | \$ 18,628,881 | \$ 8,134,211 |
| Net Assets: | | | | | | |
| Invested in capital assets, | | | | | | |
| net of related debt | 58,093,061 | 56,250,350 | 3,819,583 | 3,421,756 | 61,912,644 | 59,672,106 |
| Restricted | 15,556,586 | 11,777,207 | - | - | 15,556,586 | 11,777,207 |
| Unrestricted | 2,178,828 | 845,605 | 928,910 | 753,162 | 3,107,738 | 1,598,767 |
| Total Net assets | \$ 75,828,475 | \$ 68,873,162 | \$ 4,748,493 | \$ 4,174,918 | \$ 80,576,968 | \$ 73,048,080 |

Governmental Activities

By far the largest change was in capital assets, which increased \$11.5 million. This is attributed to a large property purchase of a building as a possible site for a new senior center and a large increase in CWIP as a result of a large ongoing street project and continuing costs associated with the development of town square. On the liability side Long-term liabilities increased \$9.6 million, due to a bond issue late in the year.

Business-type Activities

Storm Water Management: During 2006 a large detention facility entered the construction phase with completion expected next year.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006:

Governmental activities resulted in a net increase in the City of Burien's net assets of \$7 million. A summary version of the Statement of Activities follows.

Summary of Revenues

| | Governmental Activities | | Business - Type Activities | | Total | |
|----------------------------------|----------------------------|---------------|-------------------------------|--------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,790,846 | \$ 2,666,076 | \$ 1,571,544 | \$ 1,555,745 | \$ 4,362,390 | \$ 4,221,821 |
| Operating grants & contributions | 3,402,495 | 1,951,238 | - | - | 3,402,495 | 1,951,238 |
| Capital grants & contributions | 3,121,363 | 3,655,869 | - | - | 3,121,363 | 3,655,869 |
| General Revenues: | | | | | | |
| Property taxes | 5,030,230 | 4,256,885 | - | - | 5,030,230 | 4,256,885 |
| Sales Taxes | 5,208,554 | 4,816,460 | - | - | 5,208,554 | 4,816,460 |
| Other Taxes | 5,003,814 | 4,571,922 | - | - | 5,003,814 | 4,571,922 |
| Investment Interest | 560,895 | 468,386 | 54,470 | 33,315 | 615,365 | 501,701 |
| Total Revenues | \$ 25,118,197 | \$ 22,386,836 | \$ 1,626,014 | \$ 1,589,060 | \$ 26,744,211 | \$ 23,975,896 |

Summary of Expenses

| | Governmental Activities | | Business - Type Activities | | Total | |
|---|----------------------------|---------------|-------------------------------|--------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Expenses | | | | | | |
| General Government | \$ 3,480,104 | \$ 2,961,323 | \$ - | \$ - | \$ 3,480,104 | \$ 2,961,323 |
| Public Safety | 6,973,540 | 6,732,456 | - | - | 6,973,540 | 6,732,456 |
| Physical Environment | 201,119 | 169,743 | - | - | 201,119 | 169,743 |
| Transportation | 3,817,317 | 3,496,991 | - | - | 3,817,317 | 3,496,991 |
| Economic Environment | 1,292,505 | 1,236,388 | - | - | 1,292,505 | 1,236,388 |
| Health and Human Services | 6,676 | 52,995 | - | - | 6,676 | 52,995 |
| Culture and Recreation | 2,312,841 | 2,237,990 | - | - | 2,312,841 | 2,237,990 |
| Interest on Long-term Obligations | 162,993 | 135,118 | - | - | 162,993 | 135,118 |
| Storm Drainage | - | - | 968,228 | 997,661 | 968,228 | 997,661 |
| Total Expenses | \$ 18,247,095 | \$ 17,023,004 | \$ 968,228 | \$ 997,661 | \$ 19,215,323 | \$ 18,020,665 |
| Increase in net assets before transfers | 6,871,102 | 5,363,832 | 657,786 | 591,399 | 7,528,888 | 5,955,231 |
| Transfers | 84,211 | 80,128 | (84,211) | (80,128) | - | - |
| Increase in net assets | 6,955,313 | 5,443,960 | 573,575 | 511,271 | 7,528,888 | 5,955,231 |
| Net assets - beginning | 68,873,162 | 63,429,202 | 4,174,918 | 3,663,647 | 73,048,080 | 67,092,849 |
| Net assets - ending | \$ 75,828,475 | \$ 68,873,162 | \$ 4,748,493 | \$ 4,174,918 | \$ 80,576,968 | \$ 73,048,080 |

GOVERNMENTAL AND PROPRIETARY ACTIVITIES FOR FISCAL YEAR ENDING DECEMBER 31, 2006

Governmental Activities

With only a couple of exceptions, governmental program revenues and expenses remain similar to the prior year. The two largest revenue differences are an increase of \$900,000 in intergovernmental revenues due to increased grant funded projects during the year and an \$800,000 increase in property taxes based on the levying of previously banked property tax authority, for the first time in 2006. This additional revenue has been earmarked for the acquisition and ultimate remodeling of a new senior center. The single largest expenditure increase is for general government which covers; council, city manager, community relations, finance and legal departments.

Business-type Activities

Storm Water Fund revenues are consistent with last year when a rate increase went into effect and expenditures have remained relatively constant for the last few years.

BUDGETARY HIGHLIGHTS

The City Council approved three amendments to the adopted budget. The first was to bring forward the prior year's ending fund balances to the current year's beginning fund balances. The second and third budget amendments approved several transfers of funds available, in excess of council policy, in the operating funds to the capital improvement programs. They also approved the purchase of a potential site for the new Senior Center, and other unforeseen projects identified after the preparation of the original budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

As of December 31, 2006 the City had invested \$77.4 million in capital assets as reflected in the following table, which represents a net increase (additions, deductions and depreciation) of \$11.9 million. Additional detailed information on Capital Assets is available in the Notes to the Financial Statements (Note 7.)

**CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

| | Governmental Activities | | Business - Type Activities | | Total | |
|-----------------------------------|----------------------------|---------------|-------------------------------|--------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 24,037,991 | \$ 18,640,904 | \$ 1,076,060 | \$ 1,044,682 | \$ 25,114,051 | \$ 19,685,586 |
| Buildings | 1,760,558 | 1,910,625 | - | - | 1,760,558 | 1,910,625 |
| Improvements other than buildings | 2,059,764 | 2,130,583 | 9,919 | 12,399 | 2,069,683 | 2,142,982 |
| Machinery and equipment | 312,940 | 442,015 | 12,513 | 21,234 | 325,453 | 463,249 |
| Infrastructure | 33,081,104 | 34,082,235 | 1,873,843 | 1,974,687 | 34,954,947 | 36,056,922 |
| Construction work in progress | 12,343,523 | 4,858,047 | 847,248 | 368,754 | 13,190,771 | 5,226,801 |
| Total | \$ 73,595,880 | \$ 62,064,409 | \$ 3,819,583 | \$ 3,421,756 | \$ 77,415,463 | \$ 65,486,165 |

The following table reconciles the change in capital assets. Included within additions are construction work in progress (CWIP) balances. For governmental activities the CWIP amount is \$12.3 million which is comprised of the town square, parks and street improvement projects still under construction. This large increase, \$7.5 million in governmental activities CWIP is predominantly due to the 1st Ave. South project and the continued activity on the Town Square development project. For business-type activities the CWIP increase of \$478 thousand, is predominately due to the beginning of construction on a large detention facility.

CHANGE IN CAPITAL ASSETS

| | Governmental Activities | | Business - Type Activities | | Total | |
|-----------------------------------|----------------------------|--------------|-------------------------------|------------|---------------|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Changes in Capital Assets | | | | | | |
| Land | \$ 5,397,087 | \$ 3,948,797 | \$ 31,378 | \$ 548,706 | \$ 5,428,465 | \$ 4,497,503 |
| Buildings | (150,067) | (150,067) | - | - | (150,067) | (150,067) |
| Improvements other than buildings | (70,819) | 1,504,496 | (2,480) | (2,480) | (73,299) | 1,502,016 |
| Machinery and equipment | (129,075) | (105,171) | (8,721) | (3,387) | (137,796) | (108,558) |
| Infrastructure | (1,001,131) | 5,792,838 | (100,844) | (81,599) | (1,101,975) | 5,711,239 |
| Construction in progress | 7,485,476 | (2,836,827) | 478,494 | 170,556 | 7,963,970 | (2,666,271) |
| Total | \$ 11,531,471 | \$ 8,154,066 | \$ 397,827 | \$ 631,796 | \$ 11,929,298 | \$ 8,785,862 |

OUTSTANDING DEBT

As of year-end 2006 the City had \$15.3 million in debt outstanding compared to \$5.8 million last year. This \$9.5 million increase is the result of a \$9.8 million general obligation debt issued, just before year end.

OUTSTANDING DEBT AT YEAR END

| | Governmental Activities | | Business - Type Activities | | Total | |
|---|----------------------------|--------------|-------------------------------|------|---------------|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| General Obligation Bonds | \$ 12,530,000 | \$ 2,850,000 | \$ - | \$ - | \$ 12,530,000 | \$ 2,850,000 |
| Special Assessment debt with government commitment (Public Works Trust Fund Loan) | 844,444 | 897,222 | - | - | 844,444 | 897,222 |
| Public Works Trust Fund Loan | 1,937,660 | 2,066,837 | - | - | 1,937,660 | 2,066,837 |
| Total | 15,312,104 | 5,814,059 | - | - | 15,312,104 | 5,814,059 |

There was one new General Obligation debt issue late in the year for \$9.8 million, to provide funding for acquisition of a potential site for a new senior center and to provide additional funding for the town square development projects. A Public Works Trust Fund loan in the original issue amount of \$1 million is being repaid by a Special Assessment against the benefiting property owners on the 152nd Street Capital Improvement Project, and the remaining debt is being repaid from general revenues of the city. For more detailed information on the City's debt and amortization terms refer to the Notes to the Financial Statements (Note 8.)

ECONOMIC FACTORS

While property taxes are important to the City, they only represent 20.0% of total governmental resources. Sales taxes, and Business and Occupation/utility taxes, comprise approximately 20.7% and 11.3% of these resources respectively and inter-governmental revenues from state shared revenues and grants make up just over 26.2% of total resources. With the economy's continued to growth, all these sources of revenues appear to be stable for the next few years. The City continues to monitor all of its resources and determines the need for program adjustment or fee increases as necessary.

NEXT YEAR'S BUDGETS AND RATES

The 2007 fiscal year budget projects a 5% increase in resources and an 8% increase in expenditures for the following year. The single largest increase is projected to be for debt service due to a General Obligation bond sold in late 2006, which has been offset by a decrease in capital expenditures in the operating funds. Surface water management fees increased 20% in 2005. This was the first rate increase for the Surface Water Management fund since the City incorporated in 1993. These additional funds are projected to be used for implementation of the recently completed Storm Water Master plan.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 15811 Ambaum Blvd. SW, Suite C, Burien, Washington 98166.